



AUDITOR-GENERAL
SOUTH AFRICA

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Auditor-General of South Africa

Greater Kokstad Municipality - audit report 2015-16

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Greater Kokstad Municipality

Report on the financial statements

Introduction

1. I audited the financial statements of the Greater Kokstad Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Greater Kokstad Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Material impairments

8. Trade receivables as disclosed in note 3 to the financial statements was impaired by R28,90 million (2014-15: R25,79 million). This was as a result of an annual review of the collectability of consumer debts.

Additional matter

9. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

10. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

11. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

12. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the basic service delivery objective presented in the annual performance report of the municipality for the year ended 30 June 2016.
13. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
14. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time

bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information (FMPPI).

15. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
16. I did not identify any material findings on the usefulness and reliability of the reported performance information for the basic service delivery objective.

Additional matters

17. I identified no material findings on the usefulness and reliability of the reported performance information for the selected objectives; however, I draw attention to the following matters:

Achievement of planned targets

18. The annual performance report on pages x to x includes information on the achievement of the planned targets for the year.

Adjustment of material misstatements

19. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the basic service delivery objective. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

20. I performed procedures to obtain evidence that the municipality complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

21. The amendments to the integrated development plan was not adopted by the council only after the proposed amendment has been published for public comment for 21 days, in contravention of Municipal Planning and Performance Management Regulation 3(4)(b).

Annual financial statements

22. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, disclosure items and cash flow statement identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were subsequently provided, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

23. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of supply chain management regulation 17(a) and (c).

Human resource management

24. An appointment was made in a post of a manager directly accountable to the municipal manager that was not advertised, in contravention of section 56(3) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).
25. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.

Expenditure management

26. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Assets management

27. An effective system of internal control over assets including an asset register was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

28. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Internal control

29. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the findings on compliance with legislation.

Leadership

30. The leadership did not oversee and monitor the internal controls adequately to ensure that effective measures were taken to address the previous findings on accurate and reliable financial reporting and compliance with key legislation. This was due to vacancies in key positions and slow responses by management in addressing prior year external audit recommendations including the approval of a new staff establishment.

Financial management

31. A checklist to monitor compliance with legislation relating to strategic planning and performance management, consequence management, procurement and contract management, asset management, human resource management and expenditure

management was either not developed or updated by management to include all of the key legislation requirements.

Other reports

32. I draw attention to the following engagement that could potentially impact on the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of this engagement that is in progress.

Investigation

33. At the request of the municipality, the KwaZulu-Natal Provincial Treasury performed an investigation into the supply chain management unit of the municipality which covers the financial periods 2011-12 to 2015-16. The investigation was initiated based on irregular awards that were made to service providers.

Auditor-General

Pietermaritzburg

30 November 2016



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